

CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM
305 W. PINE STREET
TUESDAY, JANUARY 5, 1999

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, January 5, 1999 commencing at 7:00 a.m.

ROLL CALL

Present: Council Members – Hitchcock, Nakanishi, Pennino and Land (Mayor)

Absent: Council Members – Mann

Also Present: City Manager Flynn, Deputy City Manager Keeter, Finance Director McAthie, City Attorney Hays and City Clerk Reimche

Also present in the audience was a representative from the Lodi News Sentinel and The Record.

CITY COUNCIL CALENDAR UPDATE

Marilyn Field with Habitat for Humanity invited the City Council to attend a house warming for its recently completed home at 615 S. Garfield Street on January 20, 1999 at 3:30 p.m.

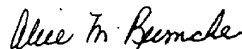
TOPIC(S)


1. Budget Policies, Goals and Objectives

ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at approximately 8:17 a.m.

ATTEST:



Alice M. Reimche
City Clerk




1999-2001 FINANCIAL PLAN AND BUDGET

Overview and Budget Policies


1/5/99




Set the Stage



- Internal Meetings:
 - Issue Instructions
 - Issue Calendar
 - Discuss Policies
- Public Meetings
 - Discuss Policies
 - Outline Goals
 - Detail Objectives



Analysis Process



- Estimated Revenues
- Budget Requests
 - Operating
 - Capital
 - Equipment
- Debt Service Schedule

Completion of Budget Process



- Final Draft Budget Introduced
- Budget approved
- Budget is printed



Public Meeting

- Discussion on Policies



BENEFITS of POLICIES

- Credibility & public confidence
- Sound financial management & fiscal integrity
- Saves time & energy
- Directs attention to total financial condition
- Forward looking approach to planning
- Continuity in handling financial affairs

OVERVIEW - BUDGET POLICIES AND GOALS

OVERVIEW

The overall goal of the City's Financial Plan and Budget is to establish and maintain effective management of the City's resources. Formal statements of budget policy and major goals provide the foundation for effective planning. Accordingly, this section describes the basic budget policies used in guiding the preparation and management of the City's overall budget. This section is composed of the following major units:

- * Budget Management and Control Policies
- * Major City Goals

Some of the benefits to establishing financial policy include:

1. Publicly adopted policy statements contribute greatly to the credibility of and public confidence in the City. For the credit rating industry and prospective investors, such statements show the City's commitment to sound financial management and fiscal integrity.
2. Established policy saves time and energy. Once decisions are made at the policy level, the issues do not need to be discussed each time a decision has to be made.
3. The process of developing overall policy directs the attention of staff and Council to the City's total financial condition rather than single issue areas. Moreover, this process requires staff and Council to think about linking long-term financial planning with day-to-day operations.
4. As overall policies are developed, the process of trying to tie issues together can bring new information to the surface and reveal further issues that need to be addressed.
5. Developing financial policies reinforces the Council's policy role in maintaining good financial condition.
6. Setting financial policies can improve the City's fiscal stability by setting a forward-looking approach to planning.
7. Explicit policies contribute to continuity in handling the City's financial affairs.

BUDGET MANAGEMENT AND CONTROL POLICIES

The following policies guide the preparation and execution of the 1999-2001 Financial Plan and Budget:

- | | |
|--|---|
| * Financial Plan Organization | * Investments |
| * Budget Administration | * Capital Financing and Debt Management |
| * General Revenue Management | * Capital Improvement Budget |
| * Recreation and Community Center Fees | * Human Resource Management |
| * Enterprise Fund Fees and Rates | * Productivity Reviews |
| * Other Fees and Rates | * Contracting For Services |
| * Revenue Distribution | * Allocating Cost of Services |
| * Appropriation Limitation | * Carryover Policy |
| * Fund Balance Designations and Reserves | * Fleet Policy |

1999-2001 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

FINANCIAL PLAN ORGANIZATION

A. Through its financial plan, the City will:

1. Identify community needs for essential services
2. Organize the activities required to provide these services.
3. Establish policies and goals which define the nature and level of services required.
4. Identify activities performed in delivering services.
5. Propose objectives for improving the delivery of services.
6. Identify and appropriate resources required to perform services and accomplish objectives.
7. Set standards to measure and evaluate the:
 - a. Output of activities
 - b. Accomplishment of objectives
 - c. Expenditure of appropriations

B. The City will use a two-year financial plan and budget concept to emphasize long-range planning and effective management of services. The benefits of a two-year financial plan and budget are:

1. Reinforces long-range planning
2. Concentrates on the development and budgeting for significant objectives
3. Establishes realistic schedules for completing objectives
4. Provides for orderly and structured operations
5. Promotes orderly spending patterns

C. The two-year financial plan and budget will establish measurable objectives and allow reasonable time to accomplish those objectives.

D. The status of major program objectives will be reported to the Council semi-annually.

E. The City Council will review and amend appropriations, if necessary, semi-annually.

BUDGET ADMINISTRATION

A. City Council

The City Council is ultimately responsible to the public for the delivery and conduct of City services and facilities. Accordingly, the Council appropriates funds to ensure the delivery of services at the levels and in the priority established by the Council.

BUDGET POLICIES

- B. To emphasize and facilitate long-range planning, the City will project operating revenues for the succeeding five years.
- C. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by accruing future revenues, rolling over short term debt or borrowing reserves of one fund to another.

RECREATION AND COMMUNITY CENTER FEES

- A. Recreation service cost recovery goals are addressed as an integral component of the City's comprehensive user fee study provided by David M. Griffith and Associates. It is the City's goal that 30% of the total cost of the City's recreation and community center programs should be recovered through fees and charges for recreation activities and the use of City facilities and equipment. In achieving this overall cost recovery goal, the following guidelines will be used:

- 1. Cost recovery for activities directed to adults should be relatively high.
- 2. Cost recovery for activities for youth should be relatively low.

Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community wide benefit to encourage high-levels of participation in youth recreation activities regardless of financial status.

- 3. For cost recovery activities of less than 100%, there should be a differential in rates between residents and non-residents.
 - 4. These policy guidelines are sufficient in themselves in providing direction for setting the recreation and community center fees. Although these targets may be internally useful in administering recreation fees, the City's management should have as much flexibility as possible in setting specific activity fees as long as they meet the objectives and criteria provided above. However, the Recreation Department and Hutchins Street Square will prepare and submit a summary of internal cost recovery targets to the City Manager for various activity categories at least annually.
- B. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee support categories listed above.
 - C. The Recreation Department and Hutchins Street Square may waive fees with the approval of the City Manager when it is determined that an undue hardship exists or when in the best interests of the City.

1999-2001 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

D. Comparability with Other Communities

1. Fee surveys should never be the sole or primary criteria in setting City fees. There are many factors that affect how and why other communities have set their fees at their levels. For example:
 - a. What level of cost recovery is their fee intended to achieve compared with Lodi's cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with Lodi's service or performance standards?
 - e. Is their rate structure significantly different than Lodi's and what is it intended to achieve?
2. Surveys comparing the City's fees to other communities is useful background information in setting fees for several reasons:
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of the City's fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost effective the City provides services.

These are difficult questions to address in fairly evaluating fees among different cities.

REVENUE DISTRIBUTION

The Council recognizes that generally accepted accounting principles for local government discourage the "earmarking" of General Fund revenues, and accordingly, the practice of earmarking general fund revenues for specific programs should be minimized. Approval of the following Revenue Distribution policies for 1999-2001 does not prevent future Councils from directing General Fund resources to other funds and activities as necessary.

BUDGET POLICIES

D. Enterprise Fund Allocations to the General Fund

1. The goal of Proposition 4 is to limit growth in appropriations of both state and local government to changes in the cost of living and population in order to control spending levels. Proposition 4 further describes the difference between "tax proceeds" and fees. Tax proceeds are the revenue from regulatory licenses, user charges and user fees to the extent the revenue exceeds the cost of providing the regulation, product or service. (This includes transfers from an enterprise fund to the extent those funds exceeded the cost of providing the services).
2. As discussed above, the funds transferred from the City's enterprise funds to the City's general fund are "In-Lieu of Taxes" to the extent they exceed the cost of services provided by general services (accounting, personnel, legal, insurance, etc.). These taxes will be levied during the 1999-2001 Financial Plan and Budget period based on prior year revenues as follows:

	<u>1999-2000</u>	<u>2000-01</u>
In-lieu of Tax - Electric	12%	12%
In-lieu of Tax - Water	17%	17%
In-lieu of Tax - Sewer	20%	20%

E. Special Revenue Allocations to the General Fund

Revenues the City receives for specific services (i.e. vehicle tow charges) will not be designated for use by an individual department unless required by statute or approved by the City Council. When required by statute (i.e. asset seizure), these funds will be first allocated to the purchase of necessary and essential equipment and/or services prior to purchase with General Fund resources.

APPROPRIATION LIMITATION

- A. The Council will annually adopt a resolution establishing its appropriation limit calculated in accordance with Article XIII B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriation limit.
- B. The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.
- C. The City will annually review user fees and charges and report to the Council the amount of program subsidy, if any, that is being provided by the General Fund or Enterprise Funds.

BUDGET POLICIES

- C. The City will strive to keep idle cash balances fully invested through daily projections of cash flow requirements. To avoid forced liquidations and losses of investment earnings, cash flow and future requirements will be the primary consideration when selecting maturities.
- D. As the market and the City's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.
- E. The City will invest only in those instruments authorized by the California Government Code Section 53601. The City will not invest in stock, will not speculate, and will not deal in futures or options. The investment market is highly volatile and continually offers new and creative opportunities for enhancing interest earnings. Accordingly, the City will thoroughly investigate any new investment vehicles prior to committing City funds to them.
- F. Current financial statements will be maintained for each institution in which cash is invested. Investments will be limited to 20 percent of the total net worth of any institution and may be reduced further or refused altogether if an institution's financial situation becomes unhealthy.
- G. In order to maximize yields from its overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.
- H. Ownership of the city's investment securities will be protected through third-party custodial safekeeping.
- I. The City Finance Director/Treasurer will develop and maintain a comprehensive, well documented investment reporting system which complies with Government Code Section 53607. This system will provide the City Council with appropriate investment performance information.
- J. The City Finance Director/Treasurer will develop and maintain an Investment Management Plan which addresses the City's administration of its portfolio, including investment strategies, practices, and procedures.

CAPITAL FINANCING AND DEBT MANAGEMENT

Capital Financing

- A. The City will consider the use of debt financing only for one-time capital projects and only under the following circumstances:
 - 1. When the project's useful life will exceed the term of the financing.
 - 2. When project revenues or specific resources will be sufficient to service the long-term debt.

1999-2001 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

- H. The City will generally conduct debt financing on a competitive basis. However, negotiated financing may be used due to market volatility or the use of an unusual or complex financing or security structure.
- I. The City will seek investment grade ratings (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.
- J. The City will monitor all forms of debt annually coincident with the budget process.
- K. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
- L. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

CAPITAL IMPROVEMENT BUDGET

- A. Construction projects and capital purchases (other than vehicles, equipment and major computer software acquired through the Equipment Fund and projects funded by an Enterprise Fund) which cost more than \$10,000 will be included in the Capital Improvement Budget (CIB); minor capital outlays of \$10,000 or less will be included with the operating activity budgets. Enterprise Fund projects and major equipment purchases will be based on the capitalization practices of the Enterprise.
- B. The purpose of the CIB is to systematically plan, schedule, and finance capital acquisitions to ensure cost-effectiveness as well as conformance with established policies. The CIB will be a five-year plan organized into the same functional groupings used for the operating budget. The CIB will reflect a balance between capital replacement projects which repair, replace, or enhance existing facilities, equipment or infrastructure; and capital facility projects which significantly expand or add to the City's existing fixed assets.
- C. Every capital project will have a project manager who will prepare the project proposal, ensure that required phases are completed on schedule, authorize all project expenditures, ensure that all regulations and laws are observed, and periodically report project status.
- D. A CIB Coordinating Committee, chaired by the Directors of Public Works and the Electric Utility Department, will review project proposals, determine project phasing, recommend project managers, review and evaluate the draft capital budget plan, and report project status at least annually to Council. The Committee will be made up of representative of each Department.

BUDGET POLICIES

- D. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
1. The City Council will authorize all regular positions except in the case of the Library which is governed by the Library Board.
 2. The Human Resources Department will coordinate the hiring of all employees and evaluate the reallocation of existing positions.
 3. All requests for additional regular positions will include an evaluation of:
 - a. The necessity, term, and expected results of the proposed position.
 - b. Staffing and material costs including salary, benefits, equipment, uniforms, clerical support, and facilities.
 - c. The ability of private industry to provide the proposed service.
 - d. Additional revenues or cost savings which may be realized.
 4. Periodically, and prior to any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees under a "productivity review".
- E. Temporary employees are employees other than regular employees, elected officials, and volunteers budgeted in hours. Temporary employees will augment regular City staffing only as limited term employees, seasonal employees, emergency, intermittent, contract employees, and interns. The City Manager will encourage the use of temporary employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than regular, year-round staffing is required.
- F. Contract employees will be defined as temporary employees with written contracts approved by the City Manager who may receive approved benefits depending on hourly requirements and the length of their contract. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs, or activities requiring specialized or augmented levels of staffing for a specific period of time. The services of contract employees will be discontinued upon completion of the assigned project, program or activity. Accordingly, contract employees will not be used for services that are anticipated to be delivered on an ongoing basis.
- G. Independent contractors will not be considered City employees. Independent contractors may be used in two situations:
1. Short term, peak workload assignments to be accomplished through the use of personnel contracted through an outside employment agency. All placements through an outside employment agency will be coordinated through the Human Resources Department and subject to the approval of the Human Resources Director.

BUDGET POLICIES

CONTRACTING FOR SERVICES

A. General Policy Guidelines

1. Contracting with the private sector and other government agencies for the delivery of services provides the City with the opportunity for cost containment and productivity enhancement. As such, the City is committed to using private sector resources in delivering municipal services as a key element in our continuing efforts to provide cost effective services.
2. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies, and ongoing operation and maintenance services.
3. In evaluating the costs of private sector contracts compared with in-house performance of the service, indirect, direct and contract administration costs of the City will be identified and considered.
4. Whenever private sector providers are available and can meet established service levels, they will be seriously considered as viable service delivery alternatives using the evaluation criteria outlined below.
5. For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.

B. Evaluation Criteria

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

1. Is a sufficient private sector market available to deliver this service?
2. Can the contract be effectively and efficiently administered?
3. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
4. Can a private sector contractor better respond to expansions, contractions, or special requirements of the service?
5. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
6. Does the use of contract services provide the City with an opportunity to redefine service levels?
7. Will the contract limit the City's ability to deliver emergency or other high priority services?

BUDGET POLICIES

CARRYOVER POLICY

The Two-Year Financial Plan and Budget used by the City provided the City Council and staff with the opportunity to commit operating funds to services over a two-year time frame rather than the traditional one-year period. Under a one-year budget, appropriations lapse at the end of the fiscal year, and favorable budget balances are no longer available for operating expenditures except when encumbered under contractual agreements. The two year financial plan and budget allows for the unexpended operating budget balances to be carried forward to the second year of the Financial Plan. To ensure fund balance projections remain on target, any unexpended operating balances will be reduced if the actual revenue received is materially less than the estimated revenue projected in the Financial Plan.

The use of carryover funds from the first year into the second year of the Financial Plan recognizes that the delivery of new or enhanced services often require more time to staff, equip, organize and implement than may be possible in a one year time period. Carryover funding for operating programs into the second year provides staff with the opportunity and flexibility to improve service and maintain current operations without significant dislocation or disruptions in service delivery systems. Under this concept, the following carryover policy will be followed:

- A. All operating budget appropriations lapse at the end of the second year of the two-year financial plan and budget except for funds encumbered under contractual agreement (which includes commitments made through purchase order) for goods and services which are essential to the operation of the City in the year for which they are encumbered.
- B. Operating budgets may be encumbered to ensure adequate funding for goods and services required to conduct City operations in the year in which they are encumbered. Encumbrances must be evidenced by a binding contractual agreement (including purchase orders) between the City and the party required to deliver the goods and services. Under special conditions, requests for carryover may be made by memorandum detailing the need for carryover of funds, and such a request may be considered as an encumbrance at the discretion of the Finance Director. For carryover into the subsequent year, all such contracts, purchase orders, or special request must be submitted by June 15 of each fiscal year.
- C. The City Manager is authorized to carry forward the unexpended and unencumbered operating budget balances from the first year to the second year of the City's Financial Plan and Budget and to program these balances for re-appropriation under the following conditions:
 - 1. The budget balances were unexpended for reasons beyond the control of the operating department.
 - 2. Re-appropriation of budget balances is required to ensure full funding of programs and services approved by the City Council.
 - 3. The expenditure of these funds will promote innovation, efficiency, and effectiveness in the delivery of City services and programs.

1999-2001 FINANCIAL PLAN AND BUDGET

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The target funding does not authorize specific replacements. Vehicles will be replaced based on target funding if justified and approved by the appropriate Fleet Management Committee. The recommendation of the Fleet Management Committee to replace existing vehicles costing \$50,000 or less per vehicle is contingent on the approval of the CM. All replacement vehicles costing more than \$50,000 require budgetary and subsequent procurement approval by the City Council.

In addition, requests to increase the size of the City fleet will be included in the regular Capital Improvement Budget not the Capital Improvement Budget for Replacement Vehicles.